Financial Markets

Irving Trust

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The current business expansion is celebrating its fifth birthday this month, but few economic forecasters are going to the party. Having written the expansion's obituary a year or more ago, they are understandably embarrassed. But the signs of imminent decline that so many pointed to last year now finally seem to be moving into place. Leading indicators are declining and have been for the length of time that typically precedes a recession, while the lagging indicators are rising, as they usually do before a recession; the coincident indicators, such as industrial production, are drifting sideways. The auto and housing industries, which are dependent on consumer discretionary spending, are weak, and the deliquency rate on consumer loans is rising. On the other hand, industries dependent on business capital spending such as machine tools are strong, as are the commodity producing industries such as copper. Again, these conditions are typical of those that exist near a peak in business activity.

The commodity markets clearly believe the recession is close. Most commodity prices are down sharply from their recent peaks. Gold has fallen to $530/oz. from $850, silver to $25/oz. from $45, and copper to $0.93/oz. from $1.45. Sugar is down to $0.19/lb. from $0.28. These declines also reflect a fading of the war psychology that was in the air following the invasion of Afghanistan. Some economists thought that increased military spending would keep this expansion going, much as it did in the late 1960s during the war in Vietnam. But few if any now think military spending will do the trick. Earlier, it had appeared that Congress was eager to boost military spending above the levels proposed by the Administration. Now, it appears the President will have to fight to keep Congress from reducing the 4% real increase in defense spending that he has proposed. And since military spending is only 5% of G.N.P., a 4% increase amounts to only 0.2% of G.N.P. This is hardly enough to push the economy around and could easily be offset by a nominal rise in the consumer savings rate, for instance.

But the key question is: When are the credit markets going to believe that the peak in economic activity is near? For the last two or three weeks, the credit markets have been fixated on speculation about the Administration's anti-inflation package. With the official announcement of the package, however, interest in it is going to fade. Very soon, the credit markets will once again turn their attention to the economic statistics; in particular, they will be looking for a decline in such coincident indicators as industrial production. This will provide confirmation that business activity and interest rates have peaked or are close to it. It is unlikely the markets will have to wait for more than a few months.

Gordon B. Pye

Irving Trust

Money Market Rates

	3/14/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors			
with highest credit rating	18.50%	17.75%	11.75%
Effective since	3/14/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	17.00	17.00	10.38
Repurchase Agreements	13.00	15.75	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	16.04	16.71	9.88
6 months	16.75	16.85	10.13
1 year	15.85	16.22	10.30
Coupons			
2 years	14.70	15.40	9.82
4 years	13.38	14.25	9.23
7 years	12.70	13.45	9.13
10 years	12.42	13.10	9.13
Long Bond	12.20	12.60	9.04
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.00	17.25	10.00
3 months	18.25	17.75	10.23
6 months	18.50	18.00	10.55
1 year	17.50	17.00	10.70
Bankers' Acceptances			
1 month	17.80	17.25	9.98
3 months	18.10	17.80	10.17
6 months	18.50	18.50	10.58
Eurodollar Deposits			
1 month	18.50	18.25	10.44
2 months	19.13	18.75	10.63
3 months	19.13	18.88	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	15.00	17.00	9.75
1 month	16.50	17.13	9.88
3 months	15.00	15.00	9.90
Bank Holding Companies			
1 month	16.75	16.75	9.88
Dealer Placed:			
3 months	17.00	17.25	10.00
New Aa Corporate Utility Bond	14.50	14.50	9.80
Tax Exempt			
6 month Project Notes	7.25	7.50	5.40
12 month Project Notes	N/A	N/A	5.60
20 year AAA Bond	9.00	8.50	5.90

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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